

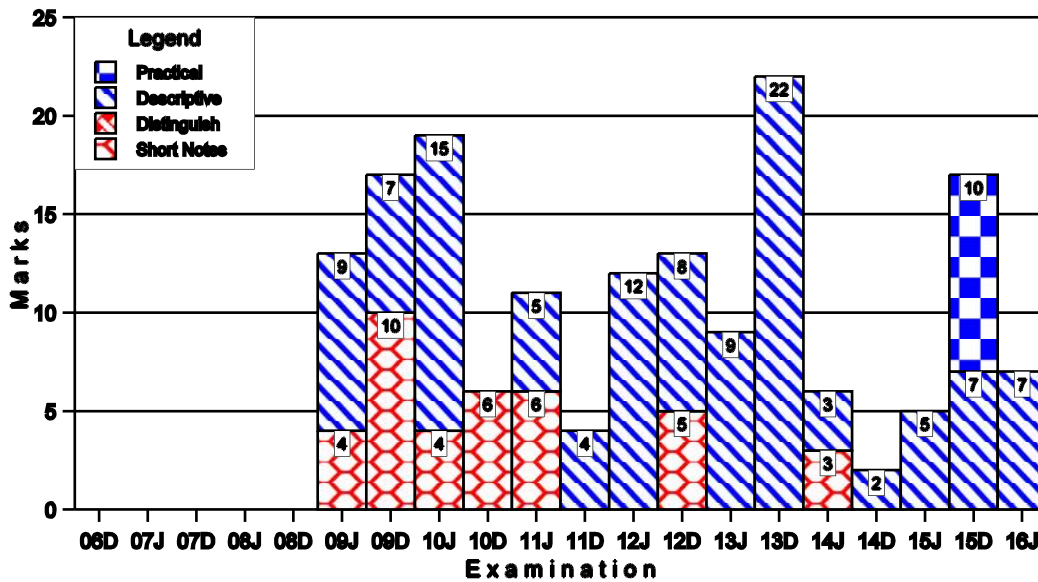
# 1

## Introduction: Ethics and Governance

### This Chapter Includes

- Introduction
- Governance through Inner consciousness
- Ethics
- Business Ethics
- Concept of Business Ethics
- Ethics Philosophies
- Scope of Business Ethics
- Advantages of Business Ethics

Marks of Short Notes, Distinguish Between, Descriptive & Practical Questions



**Chapter at a Glance**

<b>Topic</b>	<b>Important Highlight</b>
<b>Virtue theory</b>	Virtue theory of ethics is a very old concept existing since the time of Aristotle (384BC), and there are a variety of theories that fall under the category of virtue theory. Virtue theory aims to offer an account of the characteristics one must have to be considered virtuous.
<b>Theory of relativism</b>	Theory of Relativism promotes the idea that some elements or aspects of experience or culture are relative to, i.e., dependent on, other elements or aspects.
<b>Utilitarianism</b>	It is the idea that the moral worth of an action is solely determined by its contribution to overall utility.
<b>Deontological ethics or deontology</b>	Deontological ethics or deontology (Greek: (deon) meaning 'obligation' or 'duty') is an approach to ethics that focuses on the rightness or wrongness of actions themselves, as opposed to the rightness or wrongness of the consequences of those actions.

SHORT NOTES

**2009 - June [7]** (b) Write short note on the following:

(iii) Deontological ethics.

(4 marks)

**Answer :**

Deontological Ethics is an approach to ethics that holds that acts are inherently good or evil, regardless of the consequences of the acts. A central theme among deontological theorists is that we have a duty to do those things that are inherently good ("Truth - telling" for example); while the ends or consequences of our actions are important, our obligation or duty is to take the right action, even if the consequences of a given act may be bad.

It is sometimes described as "duty" or "obligation" based ethics, because deontologists believe that ethical rules "bind you to your duty".

**2009 - Dec [5]** (b) Write notes on the following :

(i) Enlightened-egoism

(ii) Ethics in compliance

(5 marks each)

**Answer :**

**(i) Enlightened – egoism**

This model takes into account harms, benefits and rights. Therefore under this model an action is morally correct if it increases benefits for the individual in a way that does not intentionally hurt other and if these benefits are believed to counterbalance any unintentional harms that ensure. For example, a company provides scholarships for education to needy students with a condition that the beneficiary is required to compulsorily work for the company for a period of 5 years. Although the company is providing the scholarship benefits the needy students but ultimately it is in the company's self interest.

**(ii) Ethics in compliance**

Compliance is about obeying and adhering to rules and authority. The motivation for being compliant could be to do the right thing out of the fear of being caught rather than a desire to be abiding by the law. An ethical climate in an organization ensures that compliance with law is fueled by a desire to abide by the laws. Organizations that value high ethics comply with the laws not only in letter but go beyond what is stipulated or expected of them.

**2010 - June [5]** (b) Write a note on the following:

(i) Ethics in finance

(4 marks)

**Answer :**

**Ethics in Finance :**

The ethical issues in finance that companies and employees are confronted with, include :-

1. In accounting-window dressing, misleading financial analysis.
2. Related party transactions not at arms length.
3. Insider trading, securities fraud leading to manipulation of the financial markets.
4. Executive compensation.
5. Bribery, kickbacks, over billing of expenses, facilitation payments.

**2010 - Dec [5]** (b) Write short notes on the following :

(iii) Deontological ethics

(3 marks)

(iv) Ethics in marketing.

(3 marks)

**Answer :**

**(iii) Deontological ethical theory :**

The word 'deontological' is derived from the Greek word 'deon' meaning 'duty' or 'obligation'. Deontological theories focus on certain fundamental duties that we have as human being, such as not committing murder or theft.

The duties stress that rightness of an act is derived from some feature of the action itself, with reference to its consequences.

The duties uphold by deontological theory may be classified under three headings :

- (a) Duties to God, including honouring him and praying to him.
- (b) Duties to oneself includes preserving over life and sharing happiness.
- (c) Duties to other including family duties, social duties and political duties.

**(iv) Ethics in marketing :**

Marketing ethics is the area of applied ethics which deals with the moral principles behind the operation and regulation of marketing. The ethical issues confronted in this area include :

- (1) Pricing : price fixing, price discrimination, price skimming.
- (2) Misleading advertisements
- (3) Contents of advertisements
- (4) Anti-competitive practices like manipulation of supply, exclusive dealing arrangements, tying arrangements etc.
- (5) Black markets, grey markets.

**2011 - June [5]** (b) Write short notes on the following :

- (i) Ethics in production (3 marks)
- (iii) Virtue ethics theory (3 marks)

**Answer :**

(i) **Ethics of production**

This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm. Some of the more acute dilemmas in this area arises out of the fact that there is usually a degree of danger in any product or production process and it is difficult to define a degree of permissibility, or the degree of permissibility may depend on the changing state of preventive technologies or changing social perceptions of acceptable risk.

- (1) Defective, addictive and inherently dangerous products and
- (2) Ethical relations between the company and the environment include pollution, environmental ethics, carbon emissions trading.
- (3) Ethical problem arising out of new technologies for e.g. Genetically modified food.
- (4) Product testing ethics.

The most systematic approach to fostering ethical behaviour is to build corporate cultures that link ethical standards and business practices.

(iii) *Please refer 2009 - Dec [7] (c) (i) on page no. 26*

**2012 - Dec [7]** (a) Write a qualitative note on 'ethics philosophies'.

(5 marks)

**Answer:**

*Please refer 2010 - June [7] (a) on page no. 27*

**2014 - June [2]** Write short note on the following:

(c) Ethics in human resources.

(3 marks)

**Answer:**

*Please refer 2012 - June [5] (b) (iii) on page no. 30*

### DESCRIPTIVE QUESTIONS

**2009 - June [5]** (a) Explain the concept of 'business ethics'. (2 marks)

**Answer :**

#### **The Concept of Business Ethics**

Business ethics is a form of applied ethics. In broad sense ethics in business is simply the application of moral or ethical norms to business. The term ethics has its origin from the Greek word "ethos", which means character or custom the distinguishing character, sentiment, moral nature, or guiding beliefs of a person, group, or institution. The synonyms of ethics as per Collins Thesaurus are Conscience, moral code, morality, moral philosophy, moral values, principles, rules of conduct, standards.

Business ethics comprises the principles and standards that guide behaviour in the conduct of business. Business must balance their desire to maximize profits against the needs of the stakeholders. Maintaining this balance often requires tradeoffs. To address these unique aspects of business, rules articulated and implicit, are developed to guide the business to earn profits without harming individuals or society as a whole.

**2009 - June [6]** (a) "Ethics is the first line of defence against corruption, while law enforcement is remedial and reactive. However, both fail to achieve the desired aim in the Indian set-up." Do you agree ? Give reasons in support of your answer. (7 marks)

**Answer :**

It is absolutely correct to say that ethics is the first line of defence against corruption. What prevents corruption in the first place is ethics. The enforcement of law is a reaction to the occurrence of the corruption. While the law can only laydown the do's and don'ts and the consequences of doing or not doing something. The compliance to law in letter and spirit can be achieved only through ethical practices being followed.

An act may be perfectly legal but totally unethical. Therefore, the statement law enforcement is remedial and reactive is also true.

However, ethics is not absolute and is open to the influence of time, place and situation. Certain unethical practice on account of the fact that is widely prevalent is apparently justified.

The following are some of the factors that have contributed to the prevalence of corruption in India:

- (i) **Cultural ethos:** Putting a premium on materialism, profiteering, power play and casual attitude for ethical values..... Myopic concern overriding long-term considerations and values.
- (ii) **Institutional failures:** Procedural rigmaroles, in-built obstacles, bureaucratic red-tapism etc.
- (iii) **Poor enforcement of law:** delay in justice.
- (iv) Erosion of values in politicians, entrepreneurs, political lobbying etc.

**2009 - Dec [5]** (a) "Ethics in business is simply the application of moral or ethical norms to business." Explain and discuss the advantages of business ethics. (5 marks)

**Answer :**

Business ethics is a form of applied ethics. In broad sense ethics in business is simply the application of moral or ethical norms to business. Ethics is a set of principles or standard to human conduct that govern the behaviour of individuals or organization using these ethical standard, a person or a group of person or an organizations regulate their behaviour to distinguish between what is right and what is wrong as perceived by others.

The advantages of business ethics include :-

1. **Attracting and retaining talent**

People aspire to join organizations that have high ethical values. Companies are able to attract the best talent and an ethical company that is dedicated to taking care of its employees will be rewarded with employees being equally dedicated in taking care of the organization. Ethical organization create an environment that is trust worthy, making employees willing to rely, take decisions and actions the decisions and action of the co-employees.

In such a work environment, employee can expect to be treated with respect and consideration for their colleagues and superiors. It cultivates strong team work and productivity and support employee growth.

2. **Investor Loyalty**

Investors are concerned about ethics, social responsibility and reputation of the company in which they invest. Investors are becoming more and more aware that an ethical climate provides a foundation for efficiency, productivity and profits. Relationship with any stakeholder, including investors based on dependability trust and commitment results in sustained loyalty.

3. **Customers Satisfaction**

Customer satisfaction is a vital factor in successful business strategy. Repeat purchases /orders and enduring relationship of mutual respect is essential for the success of the company. The name of a company should evoke trust and respect among customers for enduring success. This is achieved by a company that adopts ethical practices. When a company because of its belief in high ethics is perceived as such any crisis a mishaps along the way is tolerated by the customers as a minor aberration such companies are also guided by their ethics to survive critical situation. Preferred values are identified and aligned with those values. An organization with a strong ethical environment places its customer's interest as foremost, Ethical conduct towards customers builds a strong competitive position. It promotes a strong public image.

**2009 - Dec [7]** (c) Explain briefly the following :

(i) Virtue Ethics Theory

(2 marks)

**Answer :**

**Virtue Ethics Theory** is a branch of moral philosophy that emphasizes character, rather than rules or consequences, as the key element of ethical thinking. An example of this when a person of good standing is found possessing a valuable article belonging to someone else it will be presumed that the article was loaned to him or kept with him for safekeeping , whereas if it were in the possession of a person of doubtful or dubious character it would be presumed that he has stolen the article.



**2010 - June [6]** (b) “A commitment by corporate management to follow an ethical code of conduct confers a variety of benefits”. What are these benefits? (5 marks)

**Answer :**

**Advantages of Business Ethics :**

Adherence to a Code of Conduct offers the following advantages :

1. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
2. Full, fair, accurate, timely, and understandable disclosure in reports and documents that a company files with, or submits to the commission and in other public communications made by the company;
3. Compliance with applicable governmental laws, rules and regulations;
4. The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and
5. Accountability for adherence to the code.

**2010 - June [7]** (a) Elaborate the various ‘ethics philosophies’. (5 marks)

(b) “An organisation’s structure is important to the study of business ethics”. Comment. (5 marks)

**Answer :**

**(a) The following are some of the ethics philosophies :**

1. **Deontological ethical theory:** The word ‘deontological’ is derived from the Greek word "Deon" meaning ‘duty’ or ‘obligation’. Deontological theories focus on certain fundamental duties that we have as human being, such as not committing murder or theft.

The duties stress that rightness of an act is derived from some feature of the action itself, with reference to its consequences.

The duties upheld by deontological theory may be classified under three heading :

- (a) Duties to God, including honouring him and praying to him.
- (b) Duties to Oneself includes preserving once life and sharing happiness.
- (c) Duties to others, including family duties, social duties and political duties.

2. **Teleology:** (Greek : telos : end, purpose) Is the philosophical study of design and purpose. A teleological school of thought is one that holds all things to be designed for or directed toward a final result, that there is an inherent purpose or final cause for all that exists.
3. **Utilitarianism:** The idea that the moral worth of an action is solely determined by its contribution to overall utility, that is, its contribution to happiness or pleasure as summed among all persons. It can be described by the phrase "the greatest good for the greatest number". For example, one may be tempted to steal from a rich wastrel to give to a starving family.
4. **Relativism:** The idea that some elements or aspects of experience or culture are relative to i.e., dependent on, other elements or aspects. The term often refers to truth relativism, which is the doctrine that there are no absolute truths, i.e., that truth is always relative to some particular frame of reference, such as a language or a culture.
5. **Justice:** The concept of moral rightness in action or attitude, is closely linked to fairness. A conception of justice is one of the key features of society.

**Answer:**

(b) An organization's structure is important to the study of business ethics. In a centralized organization, decision-making authority is concentrated in the hands of top-level managers, and little authority is delegated to lower levels. Responsibility, both internal and external, rests with top management. This structure is especially suited for organizations that make high-risk decisions and whose lower-level managers are not highly skilled in decision making.

Because of their top-down approach and the distance between employee and decision maker, centralized organizational structures can lead to unethical acts. If the centralized organization is very bureaucratic, employees may behave according to "the letter of the law" rather than the spirit.

In a decentralized organization, decision -making authority is delegated as far down the chain of command as possible, such organizations have relatively few formal rules, and coordination and

control are usually informal and personal. They focus instead on increasing the flow of information. As a result, one of the main strengths of decentralized organizations is their adaptability and early recognition of external change.

**2011 - June [7]** (c) How do good business ethics practices help in attracting and retaining talent in the organisation and achieve customer satisfaction ?  
(5 marks)

**Answer :**

### **Retaining Talent**

People aspire to join organization with high ethical values. The ethical climate matter to the employees. Ethical organization create an environment that is trustworthy, making employees willing to rely, take decisions and act on the decisions and actions of the co-employees. In such a work environment, employees can expected to be treated with respect and consideration by their colleagues and superior. It cultivates strong teamwork and productivity and support employee growth.

Retaining talented people is as big a challenge as getting them in the first place. Work is a means to an end for them, not an end in itself. The relationship employees have with their employer must be a mutual, win-win one, in which their loyalty should not be taken for granted. Talented people will invest their energy and talent only in organisations with values and beliefs that match their own. In order to achieve this match, managers need to build cultures, compensation and benefits packages and career paths that reflected and foster certain shared values and believes.

### **Customer Satisfaction**

Customer satisfaction is a vital factor in successful business strategy. Repeat purchases/orders and enduring relationship of mutual respect is essential for the success of the company. The name of a company should evoke trust and respect among customers for enduring success. This is achieved by a company that adopts ethical practices, when a company because of its belief in high ethics is perceived as such, any crisis or mishaps along the way is tolerated by the customers as a minor aberration. Such companies are also guided by their ethics to survive a critical situation, preferred values are identified ensuring that organizational behaviours are

aligned with those values. An organization with a strong ethical environment places its customer's interest as foremost. Ethical conduct towards customers builds a strong competitive position. It promotes a strong public image.

**2011 - Dec [5]** (b) Discuss the concept of 'ethics philosophies'. (4 marks)

**Answer :**

*Please refer 2010 - June [7] (a) on page no. 27*

**2012 - June [5]** (a) "Companies displaying a clear commitment to ethical conduct consistently outperform companies that do not display ethical conduct." Discuss this statement highlighting the advantages of business ethics. (6 marks)

**Answer :**

*Please refer 2009- Dec [5] (a) on page no. 25*

**2012 - June [5]** (b) Discuss briefly the following:

- (iii) Ethics in human resources (3 marks)
- (iv) Enlightened egoism. (3 marks)

**Answer :**

**(iii) Ethics in Human Resources**

Human resource management (HRM) plays a decisive role in introducing and implementing ethics. Ethics should be a pivotal issue for HR specialists. The ethics of HRM covers those ethical issues arising around the employer- employee relationship such as the rights and duties owed between employer and employee. The issues of ethics faced by HRM include:

1. Discrimination issues i.e. discrimination on the basis of age, gender, race, religion, disabilities, weight etc.
2. Sexual harassment
3. Affirmative action
4. Issues surrounding the representation of employees and the democratization of the work place, trade unionisation.
5. Issues affecting the privacy of the employer; whistle blowing.
6. Issues relating to the fairness of the employment contract and the balance of power between employer and employee.

7. Occupational safety and health.

(iv) Please refer 2009 - Dec [5] (b) (i) on page no. 21

**2012 - Dec [5]** (b) Discuss briefly the following:

(iv) Ethics in compliance.

(3 marks)

**Answer:**

*Please refer 2009 - Dec [5] (b) (ii) on page no. 21*

**2012 - Dec [6]** (b) You are the Company Secretary of Innovative Products Ltd. The Board of directors desires to know the advantages of business ethics. Draft a note for consideration of the Board of directors. (5 marks)

**Answer:**

*Please refer 2010 - June [6] (b) on page no. 27*

**2013 - June [5]** (a) Bhagavad Gita teaches that “without being attached to the fruits of activities, one should act as a matter of duty, by working without attachment one attains the supreme.”

In the light of this statement, discuss various ethics philosophies.

(6 marks)

**Answer:**

*Please refer 2010 - June [7] (a) on page no. 27*

**2013 - June [5]** (b) Briefly discuss of the following:

(iv) Ethics in finance.

(3 marks)

**Answer:**

**Ethics in Finance:**

The ethics issue in finance that companies and employees are confronted with include:

- In accounting - window dressing, misleading financial analysis.
- Related party transaction not at arms length.
- Insider trading, securities fraud leading to manipulation of the financial markets.
- Executive compensation.
- Bribery, Kickbacks, over billing of expenses, facilitation payments.

**2013 - Dec [5]** (a) "It is now well recognised that the business ethics and financial performance of companies are interlinked." Discuss this statement and highlight the benefits of business ethics. (6 marks)

**(b)** Discuss briefly the following:

(ii) Ethics in marketing

(iii) Egoism

(3 marks each)

**Answer:**

**(a)** Please refer 2010 - June [6] (b) on page no. 27

**Answer:**

**(b) (ii)** Please refer 2010 - Dec [5] (b) (iv) on page no. 22

**(iii) Egoism;**

Egoism derived from latin ego, "I" in philosophy, is an ethical theory holding that the good is based on the pursuit of self-interest. This model takes into account, harms, benefits and rights of a person's own welfare. Under this model an action is morally correct if it increases benefits for the individual in a way that does not intentionally hurt others, and if these benefits are believed to counterbalance any unintentional harms that ensure. For example, a company provides scholarships for education to needy students with a condition that the beneficiary is required to compulsorily work for the company for a period of 5 years. Although, the company's providing the scholarship benefits the needy students, but ultimately it is in the company's self interest.

**2013 - Dec [6]** (c) "Most of the ethical decisions have uncertain consequences." Comment. (5 marks)

**Answer:**

**Ethical Decision Making have five major characteristics in uncertain consequences:**

**1. Most ethical decisions have extended consequences:**

Management decision's actions and results have consequences that extend beyond their control and beyond the organisation into society.

**2. Most ethical decisions have multiple alternative:**

Simple yes or no choice do not adequately characterize the many alternatives that exist and that should be considered for decisions such as “should a manager pay a bribe”? and “should a factory pollute the air”?

**3. Most ethical decisions have mixed outcomes:**

As noted in the second point for alternative outcomes are not unambiguous, they have social benefits and costs as well as financial revenues and expenses associated with the ethical choices.

**4. Most ethical decisions have uncertain consequences:**

Unanticipated and unknown consequences can follow ethical choices.

**5. Most ethical decisions have personal implications:**

Such decisions can affect the lives and careers of the decision makers. Individuals costs and benefits in addition to financial and social ones, are associated with most alternatives in ethical decisions.

**2013 - Dec [7]** (c) “Sexual harassment at work place has been a matter of debate.” Discuss this statement in the light of ethics in human resources.

(5 marks)

**Answer:**

The Statement is Correct.

Ethics in human resource is all about to have the transparent policies & practices in Human Resource Management and to avoid the most common areas causing ethical concern like favouritism in hiring, training and promotion; sexual harassment; sex discrimination in promotion etc.

As per the guidelines and norms laid down by the Hon'ble Supreme Court of India in Vishaka and Others Vs. State of Rajasthan and Others, it shall be the duty of the employer or other responsible persons in work places or other institutions to prevent or deter the commission of acts of sexual harassment and to provide the procedures for the resolution, settlement or prosecution of acts, of sexual harassment by taking all steps required.

**2014 - June [1]** (b) Briefly comment on the following:

(i) Business ethics play a vital role for an organisation.

(3 marks)

**Answer:**

**Business ethics play a vital role for an organisation**

Business ethics comprises the principles and standards that guide behaviour in the conduct of business. Businesses must balance their desire to maximize profits against the needs of the stakeholders. Maintaining this balance often requires tradeoffs. To address these unique aspects of businesses, rules – articulated and implicit, are developed to guide the businesses to earn profits without harming individuals or society as a whole. The coverage of business ethics is very wide as it deals with norms relating to a company and its employees, suppliers, customers and neighbors, its fiduciary responsibility to its shareholders. It reflects the philosophy of business, one of whose aims is to determine the fundamental purposes of a company.

Business ethics stands for the saneness or purity of purpose that is upheld through carefully designed actual practices of a business enterprises. It is an embodiment of conscience concern towards execution of business processes in tune with the nobility of the purpose.

**2014 - June [2]** (b) “ Instances of sexual harassment of women at workplace reflect on governance practices.” Do you agree with this statement? What steps have been taken by the government to prevent such instances?

**[Old Syllabus]** (6 marks)

**Answer:**

It is generally recognised that there are a number of benefits for corporations that adhere “to good corporate governance principles” and which have a “good culture”.

As a result of recent corporate collapses and corporate governance scandals around the world, a change of attitude has occurred with a much higher expectation being placed on corporations and lawyers alike.

The essence of good corporate governance is accountability. Good corporate governance provides the structure through which the objectives of an organisation are set and the means of attaining those objectives and monitoring performance are determined. An accepted best practice component of any corporate governance program must be workplace policies and procedures.



The mere preparation of policies and procedures, no matter how detailed or informative, by themselves will not be sufficient to protect corporations against legal liability.

In the first instance, the culture of a corporation will be all important. Is the culture of the corporation a good one? Is the work environment open, with an emphasis on disclosure and truthfulness? Does the culture have the attributes of transparency, compliance and acting ethically?

This compliance culture is not the exclusive role of those persons who prepare policies and procedures but is the role of everyone within the organisation.

If the culture of the organisation is not aligned to the policies and procedures of the organisation (and the goals of the organisation), then the policies and procedures will not be complied with and the goals will be harder if not impossible to achieve and this will inevitably lead to legal liability.

How seriously management, including legal counsel, take its policies and procedures has an enormous impact on the likelihood of a positive culture taking hold within an organisation. This issue will be considered later in this paper.

One might ask oneself “Are we walking the talk?”

The answer to this question will speak volumes in relation to the operation of the corporate governance program of the organisation.

In order to protect an organisation from liability and in order to put themselves in a strong legal position, employers should have detailed policies on key issues including:

- sexual harassment;
- workplace bullying;
- equal opportunity and discrimination;
- e-mail and internet usage;
- employee code of conduct;
- alcohol and drug usage;
- privacy; and
- security.

The policies can be specific stand-alone policies or may be incorporated into other policies.

The policies should be carefully drafted, effectively communicated and enforced consistently. The application of sound and thorough policies will assist organisations in minimising undesirable and/or unlawful conduct by employees and to reduce successful claims before the courts and tribunals. A policy for example on sexual harassment and workplace bullying will be used as examples to indicate the corporate governance requirements for policies and how they can be best utilised.

**Steps taken by Government to prevent Sexual Harassment:**

1. Develop an anti-harassment policy.
2. Formation of Strict Law, Rules etc.
3. Promptly investigate and deal with all complaints of harassment.
4. Monitor and revise the policy and education/information programs on a regular basis to ensure that it is still effective for your workplace.

**2014 - June [5]** (a) Explain briefly the following:

- (i) Ethics in production
- (ii) Virtue ethics theory

**[Old Syllabus]** (3 marks each)

**Answer:**

**(i) Ethics of production**

This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm. Some of the more acute dilemmas in this area arises out of the fact that there is usually a degree of danger in any product or production process and it is difficult to define a degree of permissibility or the degree of permissibility may depend on the changing state of preventive technologies or changing social perceptions of acceptable risk.

- (1) Defective, addictive and inherently dangerous products;
- (2) Ethical relations between the company and the environment include pollution, environmental ethics, carbon emissions trading;
- (3) Ethical problem arising out of new technologies for e.g. Genetically modified food;
- (4) Product testing ethics.

The most systematic approach to fostering ethical behaviour is to build corporate cultures that link ethical standards and business practices.

- (ii) **Virtue Ethics Theory** is a branch of moral philosophy that emphasizes character, rather than rules or consequences, as the key element of ethical thinking. An example of this when a person of good standing is found possessing a valuable article belonging to someone else it will be presumed that the article was loaned to him or kept with him for safekeeping, whereas if it were in the possession of a person of doubtful or dubious character it would be presumed that he has stolen the article.

**2014 - June [5]** (b) "Businesses must balance their desire to maximise profits against the needs of the stakeholders." In the light of this statement, discuss the various ethics philosophies. **[Old Syllabus]** (6 marks)

**Answer:**

**The following are some of the ethics philosophies :**

**1. Deontological ethical theory:**

The word 'deontological' is derived from the Greek word "Deon" meaning 'duty' or 'obligation'. Deontological theories focus on certain fundamental duties that we have as human being, such as not committing murder or theft.

The duties stress that rightness of an act is derived from some feature of the action itself, with reference to its consequences.

The duties upheld by deontological theory may be classified under three heading :

- (a) Duties to God, including honouring him and praying to him.
- (b) Duties to Oneself includes preserving once life and sharing happiness.
- (c) Duties to others, including family duties, social duties and political duties.

**2. Teleology:**

(Greek : telos : end, purpose) Is the philosophical study of design and purpose. A teleological school of thought is one that holds all things to be designed for or directed toward a final result, that there is an inherent purpose or final cause for all that exists.

**3. Utilitarianism:**

The idea that the moral worth of an action is solely determined by its contribution to overall utility, that is, its contribution to happiness or pleasure as summed among all persons. It can be described by the phrase “the greatest good for the greatest number”. For example, one may be tempted to steal from a rich wastrel to give to a starving family.

**4. Relativism:**

The idea that some elements or aspects of experience or culture are relative to i.e., dependent on, other elements or aspects. The term often refers to truth relativism, which is the doctrine that there are no absolute truths, i.e., that truth is always relative to some particular frame of reference, such as a language or a culture.

**5. Justice:**

The concept of moral rightness in action or attitude, is closely linked to fairness. A conception of justice is one of the key features of society.

**2014 - Dec [1]** (b) Briefly comment on the following:

- (i) Utilitarianism contributes to happiness among all persons.

(2 marks)

**Answer:**

Utilitarianism is an ethics of welfare. Business guided by utilitarian approach focuses on behaviours and their results, not on the means of such actions. It can be described by the phrase, “the greatest good for the greatest number.” The utilitarian approach prescribes ethical standards for managers in the areas of organisational goals, i.e., maximisation of profits and having efficiency which denotes optimum utilization of scarce resource.

Utilitarianism prescribes that the moral worth of an action is solely determined by its contribution to overall utility, that is, its contribution to the happiness and satisfaction of the greatest member. For example, one may be tempted to steal from a rich wastrel to give to a starving family. Hence, this approach is also referred as consequential approach. Utilitarianism is a general term for any view that holds that actions and policies should be evaluated on the basis of the benefits and costs they impose on the society. The policy which produces the greatest net benefit on lowest net costs is considered right.

**2014 - Dec [5]** (a) Explain briefly the following:

- (i) Teleological ethics. **[Old Syllabus]** (3 marks)
- (b)** “Ethics is the study of moral decisions that are made by us in the course of performance of our duties.” In the light of this statement, discuss the concept of business ethics and its advantages.

**[Old Syllabus]** (6 marks)

**Answer:**

- (a)(i) Teleological Ethics**, (derived from the Greek word ‘telos’ meaning end, purpose) is an ethical theory that holds that the ends or consequences of an act determine whether an act is good or evil. Rightness of actions is determined solely by the good consequences. It is also known as consequential ethics.
- Businessmen commonly think in terms of purposeful action as in, for example, management by objectives. Teleological analysis of business ethics leads to consideration of the full range of stakeholders in any business decision, including the management, the staff, the customers, the shareholders, the country, humanity and the environment.
- (b)** Business ethics is a form of applied ethics. In broad sense ethics in business is simply the application moral or ethical norms to business. The term ethics has its origin from the Greek word “ethos”, which means character or custom – the distinguishing character, sentiment, moral nature or guiding beliefs of a person, group or institution. The synonyms of ethics as per Collins Thesaurus are – conscience, moral code, morality, moral philosophy, moral values, principles, rules of conduct, standards.

### **ADVANTAGES OF BUSINESS ETHICS**

#### **1. Attracting and retaining talent -**

People aspire to join organizations that have high ethical values. Companies are able to attract the best talent and an ethical company that is dedicated to taking care of its employees will be rewarded with employees being equally dedicated in taking care of the organization. The ethical climate matter to the employees. Ethical organizations create an environment that is trustworthy, making employees willing to rely, take decisions and act on the decisions and actions of the co-employees.

**2. Investor Loyalty -**

Investors are concerned about ethics, social responsibility and reputation of the company in which they invest. Investors are becoming more and more aware that an ethical climate provides a foundation for efficiency, productivity and profits. Relationship with any stakeholder, including investors, based on dependability, trust and commitment results in sustained loyalty.

**3. Customer satisfaction -**

Customer satisfaction is a vital factor in successful business strategy. Repeat purchases/orders and enduring relationship of mutual respect is essential for the success of the company.

**4. Regulators -**

Regulators eye companies functioning ethically as responsible citizens. The regulator need not always monitor the functioning of the ethically sound company. The company earns profits and reputational gains if it acts within the confines of business ethics.

**2015 - June [2]** Elucidate the following:

(b) Ethics in finance.

(5 marks)

**Answer:**

**Ethics in Finance:**

The ethics issue in finance that companies and employees are confronted with include:

- In accounting - window dressing, misleading financial analysis.
- Related party transaction not at arms length.
- Insider trading, securities fraud leading to manipulation of the financial markets.
- Executive compensation.
- Bribery, Kickbacks, over billing of expenses, facilitation payments.

**2015 - Dec [1]** (b) (iv) What do you understand by 'ethics in compliance'?

(2 marks)

**Answer:**

Compliance is about obeying and adhering to rules and authority. The motivation for being compliant could be to do the right thing out of the fear of being caught rather than a desire to abide by the law. An ethical climate

in an organisation ensures that compliance with law is fuelled by a desire to abide by the laws. Organisations that value high ethical values comply with the laws not only in letter but go beyond what is stipulated or expected of them.

**2015 - Dec [1]** (c) How academicians, legislators and professionals are joining hands to improve the corporate scenario throughout the affected world ? (5 marks)

**Answer:**

Academicians, Legislators and Professionals are joining hands throughout the world to improve corporate scenario. World over, a consultative stakeholder centric approach is being adopted before introducing any new law or regulation. Companies are encouraged to be more self-governed and professionals are being tasked with ensuring the compliance of laws.

Various for profit and non-profit associations are working in order to ensure good corporate performance. The European Corporate Governance Institute (ECGI), an International Scientific Non-Profit Association has been established to improve corporate governance through fostering independent scientific research and related activities. It provides a forum for debate and dialogue between academicians, legislators and practitioners, focusing on major corporate governance issues and thereby promoting best practice. Based upon impartial and objective research and the collective knowledge and wisdom of its members, it advises on the formulation of corporate governance policy and development of best practice and undertakes any other activity that will improve understanding and exercise of corporate governance. It acts as a focal point for academicians working on corporate governance in Europe and elsewhere, encouraging the interaction between the different disciplines such as Economics, Law, Finance and Management. The Institute disseminates research results and other relevant material. It draws on the expertise of scholars and brings from numerous countries and brings together a critical mass of expertise and interest to bear on this important subject.

**2016 - June [1]** (b) Briefly comment on the following statement:

- (i) Ethical conduct is in the long-term interest of business. (2 marks)

**2016 - June [4]** (a) "In the globalised world, ethical assessments are based on relativism." Comment on this statement in the light of business practices adopted by corporates in different parts of the world. (5 marks)

### PRACTICAL QUESTION

**2015 - Dec [1]** (a) XM Ltd. (XML) which is the Indian branch of US-based Corporation reported that in the years 1998 and 1999 it manipulated its books to make fictitious payments which were recorded as commissions or discounts. According to the US-based parent company's own admission, XML paid over US \$ 6,00,000 as bribe to various government employees to win contracts, though it was a serious criminal offence for an American company under the Foreign Corrupt Practices Act (FCPA) to pay bribes in a foreign country to obtain contracts.

In view of the above, answer the following:

- (i) XML paid bribe for contracts. Why was it an unethical business practice? Explain in the spirit of business ethics.
- (ii) What role can be played by the Board of Directors in corporate governance to avoid unethical behaviour? (5 marks each)

**Answer:**

- (i) Unethical behavior is an action that falls outside of what is considered morally right or proper for a person, a profession or an industry. Hence, in the given case, XML paid over USD, 6,00,000 as bribe to various government employees to win contracts, though it was a serious criminal offence for an American Company under the Foreign Corrupt Practices Act (FCPA) to pay bribes in a foreign country to obtain contracts is an unethical business practice.
- (ii) **Role played by the Board of Directors in corporate governance to avoid unethical behavior:**
1. The Board represents the interests of shareholders, as owners of a corporation, in optimizing long-term value by overseeing



management performance on the shareholders' behalf. The Board's responsibilities in performing this oversight function include a duty of care and a duty of loyalty.

2. Directors must avoid any conflicts of interest between the director and the Company.
3. **Directors are prohibited from:**
  - (a) taking for themselves personally opportunities related to the Company's business;
  - (b) using the Company's property, information, or position for personal gain; or
  - (c) competing with the Company for business opportunities, provided, however, if the Company's disinterested directors determine that the Company will not pursue an opportunity that relates to the Company's business, a director may do so.
4. Directors should maintain the confidentiality of information.
5. Directors shall comply, and oversee compliance by employees, officers and other directors, with laws, rules and regulations applicable to the Company, including insider trading laws. Transactions in Company securities are governed by the Company's Code of Conduct.
6. **Directors should promote ethical behavior and take steps to ensure the Company:**
  - (a) encourages employees to talk to supervisors, managers and other appropriate personnel when in doubt about the best course of action in a particular situation;
  - (b) encourages employees to report violations of laws, rules, regulations or the Company's Code of Conduct to appropriate personnel; and
  - (c) informs employees that the Company will not allow retaliation for reports made in good faith.
7. Directors should communicate any suspected violations of this Code promptly to the Chairman of the Audit Committee and the Chairman of the Corporate Governance Committee.

**6.26****■ Solved Scanner CS Prof. Prog. M-II Paper 6 (New Syllabus)**

<b>Repeatedly Asked Questions</b>		
<b>No.</b>	<b>Question</b>	<b>Frequency</b>
1	Write short note on Virtue ethics theory 09 - Dec [7] (c) (i), 11 - June [5] (b) (iii)	2 Times
2	Discuss briefly the following: Ethics in compliance. 09 - Dec [5] (b) (ii), 12 - Dec [5] (b) (iv)	2 Times
3	Briefly discuss of the following: Ethics in finance 10 - June [5] (b) (i), 13 - June [5] (b) (iv), 15 - June [2] (b)	3 Times
4	Write short note on the following: Ethics in human resources. 12 - June [5] (b) (iii), 14 - June [2] (c)	2 Times